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MONTHLY PROJECTIONS
May 1987

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WHO IS RUNNING THE FEDERAL RESERVE?

During the middle of May inflationary jitters caused a dramatic increase in commodity prices. Although a large one-day increase in the CRB index was instigated by worries of impending drought in the midwest, the market response clearly was exaggerated by rising inflationary concerns. Indeed, the drought was dramatically overdone as flooding has now replaced dry soil as a chief concern in parts of the midwest. However, the inflationary surge in commodity prices, although it has since partially reversed, will be reflected in the May PPI, which was surveyed during the drought scare, and in the May CPI.

While these inflationary jitters intensified, the Federal Reserve did very little. Although M1 slowed in May following an unusually large surge in April, other monetary aggregates apparently grew near the upper end of the Federal Reserve target range. Both the monetary base and currency showed growth rates that would not be consistent with Federal Reserve monetary targets for the year. Moreover, the slowing in M1 apparently was the result of unusually large treasury deposits accumulating at the Federal Reserve. These deposits exhausted reserves from the banking system as unusually heavy payments for 1986 capital gains came flowing into treasury coffers. As the treasury draws down these balances, reserves will be released to the banking system and M1 will grow more rapidly in June. This increased liquidity may also restrain short-term interest rates during this month.

Of course, the Federal Reserve may have anticipated these shifts in available reserves and concluded that short-term interest rates were temporarily unusually high. They may also have thought that the dollar had fallen below fundamental values with respect to other currencies and was now undervalued. Indeed, the dollar is strengthening on foreign currency markets on the eve of the Venice economic summit. The belief by foreign investors that something will be accomplished at Venice has also begun to stabilize the long-term bond market.

However, anything from Venice must include changed macroeconomic policies in the leading industrial countries. Germany repeatedly announces that it will not alter the timing of its tax cut proposals nor will it pursue more expansionary monetary policy than currently is in place. Japan has announced a new stimulus package but they've also mentioned that this is the last stimulus package to be considered in this decade. Interest rates also have been reduced in Japan, although the speculative nature of the real estate and equity markets in that country suggests that changes in Japanese monetary policy without any restructuring of the Japanese economic system may be counterproductive. The United States has showed no increased willingness to reduce its government deficits. Even with unusually strong tax collections in April, the deficit for this fiscal year probably will miss the $144 billion Gramm-Rudman target by nearly $35 billion. A $36 billion budget reduction from that level depends heavily upon $18 billion of increased revenues, which are not likely to be endorsed by the President. Thus, only an increase in monetary restraint in the United States appears to be available to achieve any of the stability in foreign exchange that is currently being sought by foreign investors.

Yet, the Federal Reserve shows no tendency to engage in such monetary restraint. While short-term interest rates have increased, this appears to be the combined influence of the shift in treasury deposits and increased inflationary concerns. Commercial paper rates have been above the federal funds rate for the past two months while CD rates have widened appreciably relative to commercial paper rates. This suggests that lenders are demanding higher yields before they are willing to provide funds. Indeed, another 0.25 percentage increase in the prime rate currently is justified by the prevailing cost of funds. In short, conditions in the private economy rather than monetary policy are directly responsible for rising short-term interest rates at the present time.

In fact, the one interest rate directly under the Federal Reserve's control, the discount rate, remains unchanged. Why? The Federal Reserve had an opportunity to raise the discount rate prior to the quarterly funding in early May. An increase in the rate at that time probably would have encouraged foreign investors by suggesting that the Federal Reserve was willing to preserve higher short-term interest rates to defend the dollar. By failing to increase the discount rate, foreign investors hesitated buying government securities, leading to higher long-term interest rates than otherwise would have prevailed. The Federal Reserve again failed to respond to inflationary jitters in mid-May with a discount rate increase. An especially favorable time would have been during the Memorial Day Weekend. This would have occurred immediately after the open market committee meeting and would have signaled that the Federal Reserve had shifted toward restraint as a result of deliberations in that meeting.

Of course, the Federal Reserve may be waiting until Venice, either to indicate our resolve by raising the discount rate just prior to the meeting, or by using a discount rate increase to bargain for interest rate reductions in Germany and Japan. In the meantime, banks with seasonal borrowing needs are receiving unusually cheap money as they go to the discount window. Other short-term interest rates are partially being restrained by this bargain provided by the Federal Reserve. With commodity inflation heating up, this restraint upon short-term interest rates will encourage increased inventory accumulations. While such additional inventory holdings will create increased economic growth, it will also increase prospects for inventory imbalances, which could lead to a decline in economic activity following a surge in commodity inflation that will be sustained by inventory demand.

Although the Federal Reserve may be waiting for the "right" time to raise the discount rate, despite the presence of several "right" times during May, it may also be that the Federal Reserve has not decided that restraint is necessary. Given the mid-May inflationary jitters and the apparent resolve of Chairman Paul Volcker to fight an inflationary psychology, which has caused nearly a 1.5 percentage point gain in long-term interest rates, such an absence of policy resolve suggests that Paul Volcker did not control the Federal Reserve board.

The conclusion that Paul Volcker was not in full control of the board probably explains why he refused a third term as chairman. Why would he accept responsibility for a policy he no longer controls? In fact, the absence of monetary restraint following the Venice economic summit may well lead to adverse market responses. Once again, foreign investors appear to be holding hope for currency stability that cannot yet be achieved.

Quarterly Profile of GNP

	1987-1	1987-2	1987-3	1987-4	1988-1	1988-2	1987 Annual	1988 Annual
Real:	4.4	1.0	2.9	2.0	0.7	2.2	2.4	1.6
Price:	4.2	4.4	4.2	4.5	5.0	5.0	3.3	4.8
Nominal:	8.7	5.5	7.1	6.5	5.8	7.0	5.6	6.8

Monthly Statistical Highlights for May 1987

Payroll employment +265,000; index of hours worked +0.3%; household employment +201,000; civilian unemployment rate 6.3%; personal income +0.6%; savings rate 3.5%; personal consumption +0.3%; retail sales -0.6%; auto sales 9.6 million units; housing starts -4.1%; housing permits -3.6%; construction expenditures -0.8%; business inventories +0.4%; orders for durable goods -2.2%; orders for nondefense capital goods -1.3%; industrial production +0.4%; CPI +0.6%; PPI +0.6%; consumption deflator +0.4%; leading indicator +0.5%; real GNP +1.3%; M1 5.4%; M2 6.1%.

Monthly Statistical Highlights for June 1987

Payroll employment +158,000; index of hours worked +0.1%; household employment +223,000; civilian unemployment rate 6.3%; personal income +0.5%; savings rate 3.5%; personal consumption +0.5%; retail sales +0.9%; auto sales 9.9 million units; housing starts -0.8%; housing permits -1.2%; construction expenditures -0.7%; business inventories +0.2%; orders for durable goods +1.0%; orders for nondefense capital goods +0.6%; industrial production +0.2%; CPI +0.4%; PPI +0.5%; consumption deflator +0.3%; leading indicators +0.2%; real GNP +1.9%; M1 +6.7%; M2 +7.1%.

Commentary

Employment - Initial unemployment rates have bottomed out at 325,000 while the insured unemployment rate fell slightly to 2.4% in recent weeks. Normally, this would lead to a reduction in the unemployment rate, but the rate fell an unusually large 0.3 percentage points in April. Moreover, the April survey showed surprising strength in payroll employment, although significant growth in state and local payrolls probably was a statistical abberation. Sharp declines are expected in motor vehicle employment, but the improvement in other manufacturing should lead to a 40,000 gain in overall manufacturing payrolls in May. The workweek fell surprisingly sharply in April, but a 0.5 hour reduction may be the result of the survey being taken during a week that included Passover and Good Friday. Seasonal factors simply do not adjust adequately for these holiday events. Hourly earnings remain well behaved and are only 2.2% above previous year levels. However, the manufacturing component showed a surprisingly large 0.6% gain in April, possibly indicating the end to moderation in wage demands.

Personal Income and Outlays - Farm income fell sharply in April as subsidies virtually vanished. In addition, the reduced workweek restrained wage and salary gains. A surge in wage and salary activity should be expected next month. The return to gains for property income suggests that personal income probably was understated in our recent forecast.

A surprisingly low savings rate in April was the result of unusual tax collections caused by substantial capital gains transactions on 1986 income. As tax collections revert to more normal conditions, a substantial gain is expected in disposable income and in savings during May.

Outlays were up significantly as a result of a significant gain in automobile consumption. This automobile activity conforms more closely to unit sales than the previously announced retail sales. This suggests that retail sales for April probably will be revised upward significantly when the May report is released. Expenditures on services were less than anticipated, suggesting a slowing in overall service purchases. However, growing rental rates later in the year along with higher utility rates should cause increased inflation for services activities.

In addition to sluggishness in automobile sales, reflected in dollars spent on auto dealers in the retail sales report, purchases of furniture also slowed. A substantial surge in furniture purchases early in the year probably accounts for some of this weakness. Nevertheless, slower housing activity as the year progresses probably will prevent furniture and appliances from showing significant gains. On the other hand, oil prices appear to be rising more than originally expected while meat prices also are rising more sharply early this year. While meat prices are expected to moderate late this year and early in 1988, this will still lead to higher dollar values for nondurable outlays than originally projected. A decided weakness in unit auto sales appears to be the result of reduced attractiveness of automobile incentives. However, savings may begin to increase early in 1988, suggesting that projections of auto sales could be a bit conservative.

Construction - Although single-family starts remained strong in April, permits for future single-family activity were down sharply. Permits for multi-family activity, on the other hand, showed no substantial decrease even as actual acti-

vity slumped dramatically. Little further weakness is expected in multi-family units for the remainder of this year, as those starts are now below 470,000. Higher mortgage rates and the already deteriorating permit situation suggests that single-family starts will slow significantly for the remainder of this year before an anticipated stabilizing of mortgage rates late this year leads to a slight rebound early next year. Housing activity soon will fall below 1.6 million units and will average only 1.65 million units for 1987 according to current projections.

Public construction is not as vigorous as anticipated in our forecast, largely as a result of significant downward revisions in recent activity. Activity was revised upward for nonresidential construction over the past few months, but the deterioration currently observed in orders suggests that nonresidential construction still will fall substantially for the remainder of this year. A slight rebound is anticipated early next year. Residential construction will follow housing starts downward, but with a slight lag. A significant portion of the decline in construction activity already has occurred, but another $8 billion of construction expenditure decline is anticipated before that sector bottoms out late this year.

Business Activity - Business inventories increased significantly in March despite an unexpected decline in manufacturers' inventories. However, reduced automobile production should begin to reduce retail inventories by May and June. Manufacturing inventories are expected to rebound as a result of rising prices generating increased inventory orders.

Defense orders continued to rebound in April but are now nearly $2 billion above shipments. Therefore, a reduction in orders is anticipated in May. In addition, reduced automobile activity should restrain transportation equipment. Also, commercial aircraft are expected to be ordered and shipped at reduced rates. However, the April durable goods orders were reasonably robust, suggesting that spending on capital goods will rise slightly even after adjustment for inflation over the next twelve months.

The weakness in industrial production seems to confirm that the hours worked were more than a holiday fluke. Automobile production is expected to fall further in May, but a rebound is expected in business equipment and in industrial materials.

Prices - The surge in commodity prices occurred at the time that the PPI survey for May was being conducted. As a result, a significant increase is expected for the PPI in finished goods. As expected, the automobile incentives were not removed from the CPI in April, although they were removed from the PPI in that month. When the incentives are partially removed in May, this will cause a significant spurt in the CPI. In addition, food prices are rising early this year as a result of an unexpected surge in meat prices. The increase in meat prices is the result of herd rebuilding, especially of hogs. While this will continue to exert upward pressures on meat prices into the summer, prices are then expected to moderate during the fall. Higher prices for oil product than originally anticipated will lead to more substantial gains for prices of industrial commodities than contained in our forecast. The forecast assumed that oil prices would average about $18 per barrel through the year. It now appears that oil prices will average nearer $19 and reach $20 per barrel during the heating season.

An upward revision in the GNP deflator for the first quarter apparently occurred as a result of composition shifts in February and March. With strong gains in meat and energy prices expected in the second quarter, even modestly favorable compositions shifts in that quarter will not prevent the GNP deflator from growing more than 4%. When import prices slow late in the year, the composition shift will become unfavorable, causing substantially higher GNP deflators. This will probably result in lower growth in GNP, especially early in 1988 than originally expected.

Miscellaneous - Because of the most recent increase in prices of imports associated with the dollar's decline, the merchandise trade balances probably will deteriorate noticeably in April. They will remain surprisingly high into the summer months. However, improved export volumes and decreased import volumes should eventually lead to improvements in trade balances as well late this year and early next year. Some of the gains early next year will be the result of slower economic growth than previously anticipated.

The April decline in the leading indicators was largely the result of the workweek and should rebound now that the work week will also rebound. However, the indicators probably are flat at the present time. They are expected to grow slightly after the acceleration of prices eases in the summer. A possible summer rally in the stock market also could create favorable contributions to the leading indicators. By the fall, however, the leading indicators will be trending downward, suggesting weakness in the overall economy some time in 1988.

Financial Markets

Inflationary fears that dramatically increased long-term interest rates are beginning to ease. However, a modest rally in the bond markets has spawned significant additional supply, especially in corporate and municipal offerings. This suggests that many financial officers do not believe that the current rally can be sustained. Our analysis agrees with their assessment. However, much of the increase in long-term interest rates already has been achieved. While our estimates show higher yields for long-term bonds, especially early in 1988, these increases are largely the result of slightly higher inflation rates than originally anticipated. Most short-term interest rates also are expected to increase slightly. However, a significant increase is anticipated in the discount rate by the summer months. This will lead to prime rates approaching 9% by the end of this year. Prime rates then are expected to remain at 9% for the first half of 1988.

According to our analysis from flows of funds, dramatic increases in interest rates during the spring are largely the result of changed perceptions by foreign investors. Their belief that the dollar would not be defended has led to more substantial weakness in bond prices than would have been predicted by corporate borrowings alone. However, a pickup in spending on capital goods along with continued significant accumulations of inventories are placing some upward pressures on commercial paper rates. Of course, the household sector provided the smallest contributions to credit markets in April that it ever has. However, this was the result of increased tax payments and led to reduced federal government deficits. Therefore, the net impact upon the credit markets was minimal. During the summer, government deficits will increase while house-

hold savings will rise. Continued significant gains in corporate borrowing that are not expected to be fully matched by increased corporate earnings should provide further upward pressures on short-term interest rates. In addition, if foreign investors are disillusioned by the outcome of the Venice economic summit, they could seek higher bond yields in the summer. However, the upward movement in long-term interest rates appears to be more than sufficient to reflect intensifying inflationary pressures.

Equity Markets - Clearly, equity markets no longer are receiving support from the bond market. The change in interest rates alone could justify a 12% correction in equity values. In addition, corporate earnings are being restrained by higher finance costs. However, earnings growth should be sufficiently robust to justify modest increases in equity values into the summer months. As rising bond yields are expected to resume in the fall, the stock market probably will correct decidedly by that time. Indeed, according to fundamental analysis, the stock market probably already reached its high for the year in early April. Enough technicians have failed to recognize the increased bearishness in the bond market to sustain some speculative surges in equity values. Thus, new highs in the equity markets cannot be fully ruled out, but they will soon be replaced by significant declines. By the end of 1987, the stock market probably will be fighting to remain above 2000.

Nevertheless, some issues certainly bear continued attention. Export-oriented industries still are increasing their earning capacities and may not yet be overvalued. Some of the technology issues are rebounding from a significant slump in 1985 and 1986. They have some further upside potential. On the other hand, the automobile industry, while it is import-impacted and is benefitting from the change in exchange rates, almost certainly is overvalued relative to its near term earning prospects. Indeed, most consumer related activity may be subject to a correction. Some oil related stocks have the potential for modest gains, but the surge in resource related issues, while partially justified, appears to be overdone. Certainly, interest-sensitive issues should be largely avoided until bond yields have peaked, which should not occur until late 1988 or some time in 1989. Thus, the equity markets will become much more selective with the broad averages showing little improvement over the next six months.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	101626	101626	119.9	119.9	111011	111011	6.7	6.7	170.7	170.7
February	101862	101854	120.9	121.1	111382	111382	6.7	6.7	171.4	171.4
March	102026	102009	120.4	120.6	111368	111368	6.6	6.6	171.8	171.8
April	102263	102325	120.7	120.5	111643	111835	6.5	6.3	172.2	172.2
May	102479	102590*	121.0	120.9*	111903	112036*	6.5	6.3*	172.7	172.7*
June	102695	102748	121.3	121.0	112178	112259	6.4	6.3	173.1	173.2
July	102837	102917	121.5	121.2	112321	112468	6.4	6.2	173.6	173.8
August	102973	103105	121.5	121.4	112485	112638	6.4	6.1	174.0	174.3
September	103109	103273	121.6	121.6	112286	112857	6.6	6.1	174.4	174.8
October	103295	103426	121.8	121.8	112627	113040	6.6	6.1	174.9	175.4
November	103476	103584	122.1	122.0	112917	113225	6.5	6.0	175.4	176.0
December	103654	103722	122.4	122.1	113208	113409	6.5	6.0	175.8	176.6
January 1988	103789	103885	122.5	122.3	113356	113587	6.6	6.1	176.5	177.2
February	103927	104054	122.6	122.5	113483	113795	6.7	6.0	177.3	177.9
March	104065	104216	122.5	122.7	113442	113932	6.6	6.1	178.2	178.5
April	104228	104392	122.8	122.9	113725	114105	6.5	6.1	178.6	179.0
May	104410	104584	123.2	123.1	113902	114368	6.5	6.0	179.1	179.6
June	104592	104692	123.4	123.2	114091	114433	6.5	6.1	179.6	180.2

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	3.553	3.553	2.129	2.129	118.8	118.8	3.024	3.024	2.905	2.905
February	3.599	3.598	2.145	2.146	103.2	99.4	3.075	3.070	2.972	2.971
March	3.604	3.606	2.153	2.153	105.6	97.1	3.087	3.072	2.981	2.975
April	3.619	3.616	2.163	2.161	100.3	4.3	3.095	2.998	2.995	2.993
May	3.634	3.638*	2.172	2.175*	97.2	109.5*	3.107	3.110*	3.010	3.001*
June	3.650	3.656	2.180	2.185	90.4	108.1	3.115	3.125	3.025	3.017
July	3.665	3.677	2.190	2.197	85.2	110.1	3.126	3.142	3.041	3.032
August	3.679	3.697	2.201	2.209	79.6	111.9	3.137	3.158	3.058	3.046
September	3.695	3.715	2.209	2.220	75.6	101.9	3.148	3.172	3.073	3.070
October	3.717	3.736	2.218	2.233	73.5	109.1	3.162	3.190	3.089	3.081
November	3.733	3.754	2.232	2.244	69.7	103.6	3.176	3.202	3.106	3.098
December	3.750	3.773	2.245	2.255	65.3	98.4	3.190	3.216	3.125	3.118
January 1988	3.756	3.787	2.254	2.267	85.6	114.3	3.226	3.250	3.141	3.136
February	3.779	3.808	2.264	2.282	90.3	113.1	3.243	3.270	3.153	3.157
March	3.805	3.829	2.275	2.294	99.7	118.0	3.268	3.286	3.168	3.168
April	3.824	3.848	2.286	2.306	96.3	120.9	3.285	3.301	3.189	3.180
May	3.844	3.869	2.298	2.318	93.5	125.8	3.297	3.319	3.204	3.193
June	3.863	3.890	2.307	2.330	90.4	123.6	3.310	3.336	3.220	3.212

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	2806.6	2806.6	364.8	364.8	946.8	946.8	1495.0	1495.0	2408.9	2408.9
February	2873.7	2872.4	394.3	395.2	970.0	969.4	1509.3	1507.8	2460.0	2458.2
March	2882.6	2876.8	397.2	393.7	971.6	969.2	1513.9	1513.9	2459.3	2452.7
April	2895.8	2895.0	395.1	400.8	976.5	974.0	1524.2	1520.2	2460.3	2459.7*
May	2910.0	2902.5*	394.2	391.3*	980.8	981.8*	1535.0	1529.4*	2464.0	2455.8
June	2925.4	2918.4	396.9	395.1	985.1	985.1	1543.4	1538.2	2467.7	2460.6
July	2941.0	2933.2	399.2	396.5	989.3	989.4	1552.5	1547.3	2471.4	2464.4
August	2958.5	2947.1	402.3	396.5	994.6	993.8	1561.6	1556.8	2475.7	2466.7
September	2972.7	2970.8	405.5	403.6	996.6	999.1	1570.6	1568.1	2480.0	2478.3
October	2988.2	2981.2	407.6	399.9	1000.9	1004.1	1579.7	1577.2	2481.9	2476.2
November	3005.1	2998.3	409.1	404.0	1006.5	1008.9	1589.5	1585.4	2487.7	2481.3
December	3023.9	3017.0	410.5	408.4	1013.0	1014.0	1600.4	1594.6	2493.2	2486.8
January 1988	3039.0	3034.6	412.4	410.1	1017.3	1019.0	1609.3	1605.5	2497.1	2490.5
February	3051.3	3055.3	414.4	416.7	1018.8	1023.8	1618.1	1614.8	2497.0	2496.9
March	3064.8	3065.8	416.3	413.0	1021.7	1028.5	1626.8	1624.3	2500.8	2495.6
April	3085.8	3077.3	417.8	410.3	1028.5	1031.8	1639.5	1635.2	2506.7	2494.2
May	3100.5	3089.8	417.1	407.7	1034.0	1035.3	1649.4	1646.8	2508.5	2493.7
June	3115.7	3108.3	417.0	410.8	1039.5	1041.0	1659.2	1656.5	2509.4	2497.9

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	118.58	118.58	20.04	20.04	8.2	8.2	74.81	74.81	23.73	23.73
February	124.41	124.28	20.76	20.40	9.9	9.9	76.73	76.92	26.93	26.97
March	124.67	125.23	20.65	20.40	10.2	10.2	76.82	76.89	27.20	27.94
April	125.04	125.38	20.80	20.35	10.0	10.4	77.20	77.34	27.04	27.69
May	125.12	124.69*	20.75	20.49*	9.6	9.6*	77.54	77.79*	26.83	26.41*
June	125.88	125.82	20.72	20.53	9.9	9.9	77.88	78.05	27.28	27.24
July	126.64	125.91	20.88	20.51	10.0	9.8	78.22	78.39	27.54	27.01
August	127.38	126.67	21.06	20.64	10.0	9.9	78.63	78.74	27.69	27.29
September	127.65	127.96	21.23	20.76	9.9	10.2	78.79	79.16	27.63	28.04
October	128.47	127.91	21.30	20.84	10.0	9.7	79.13	79.56	28.04	27.51
November	129.16	128.78	21.33	20.76	10.1	9.9	79.58	79.94	28.25	28.08
December	130.02	129.72	21.15	20.93	10.3	10.1	80.09	80.34	28.78	28.45
January 1988	130.63	130.32	21.34	21.05	10.3	10.1	80.43	80.74	28.86	28.53
February	130.92	131.06	21.45	21.13	10.3	10.2	80.55	81.12	28.92	28.81
March	131.08	131.42	21.53	21.40	10.2	10.1	80.78	81.49	28.77	28.53
April	131.97	131.35	21.57	21.35	10.2	10.0	81.31	81.75	29.09	28.25
May	132.41	131.32	21.65	21.43	10.1	9.8	81.75	82.03	29.01	27.86
June	132.85	132.14	21.62	21.52	10.1	9.9	82.18	82.48	29.05	28.14

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	1.816	1.816	1.253	1.253	1.690	1.690	374.8	381.1	339.0	344.6
February	1.833	1.838	1.299	1.303	1.763	1.676	378.4	383.9	341.3	346.3
March	1.774	1.749	1.245	1.226	1.757	1.719	375.2	379.0	337.7	341.2
April	1.767	1.699	1.225	1.250	1.698	1.599	375.9	377.2*	337.4	338.9*
May	1.718	1.629*	1.189	1.153*	1.653	1.542*	376.2	374.1	336.8	335.2
June	1.654	1.616	1.138	1.128	1.589	1.524	375.7	371.6	335.4	332.1
July	1.642	1.624	1.130	1.139	1.564	1.543	375.0	370.3	333.9	329.7
August	1.642	1.644	1.132	1.151	1.541	1.586	373.4	370.2	331.6	329.1
September	1.629	1.638	1.119	1.134	1.527	1.559	372.1	371.1	329.9	329.3
October	1.610	1.585	1.106	1.109	1.506	1.447	371.3	370.6	328.3	328.3
November	1.586	1.594	1.096	1.092	1.485	1.496	371.4	370.4	327.2	327.2
December	1.580	1.580	1.087	1.076	1.488	1.504	371.3	369.5	326.0	325.6
January 1988	1.618	1.561	1.105	1.085	1.531	1.448	372.4	371.3	326.1	326.6
February	1.632	1.565	1.126	1.107	1.553	1.459	373.1	371.0	326.1	325.4
March	1.607	1.572	1.108	1.105	1.528	1.465	374.4	371.4	326.4	324.9
April	1.590	1.582	1.102	1.109	1.507	1.476	376.4	373.2	327.3	325.9
May	1.589	1.596	1.109	1.123	1.493	1.493	378.6	374.7	328.4	326.4
June	1.585	1.569	1.104	1.096	1.495	1.490	380.9	376.2	328.9	324.9

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	118.2	121.8	75.1	73.9	181.5	185.4
February	121.0	126.1	78.0	74.8	179.4	183.0
March	118.1	121.3	75.1	73.9	182.0	183.8
April	117.4	119.7*	76.0	74.5*	182.5	183.0*
May	116.8	118.6	76.6	75.3	182.8	180.2
June	116.1	116.9	77.2	76.0	182.4	178.7
July	116.5	116.1	77.8	76.5	180.7	177.7
August	116.0	115.3	78.2	76.9	179.2	178.0
September	115.7	115.1	78.7	77.4	177.7	178.6
October	115.3	114.6	79.1	78.0	176.9	178.0
November	115.8	114.7	79.6	78.5	176.0	177.2
December	115.9	114.5	78.9	78.9	176.5	176.1
January 1988	115.7	115.9	79.6	79.4	177.1	176.0
February	115.5	115.7	80.1	79.9	177.5	175.4
March	115.8	115.6	80.7	80.2	177.9	175.6
April	116.3	115.9	81.5	80.6	178.6	176.7
May	116.8	116.2	82.3	81.3	179.5	177.2
June	117.2	116.6	83.2	81.9	180.5	177.7

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	320.7	320.7	95.47	95.47	26.76	26.76	25.83	25.83
February	320.4	320.5	101.94	101.94	26.90	26.90	26.84	26.84
March	320.3	319.6	105.34	106.16	27.53	27.38	27.71	27.33
April	320.5	320.2*	102.96	106.27	26.84	27.43	27.46	26.92
May	320.8	320.7	102.43	103.88*	26.75	27.08*	27.18	27.02*
June	321.4	321.3	104.16	104.89	27.13	27.23	27.34	27.11
July	322.5	322.4	104.79	105.06	27.52	27.35	27.52	27.24
August	323.0	323.2	106.24	105.59	28.07	27.46	27.50	27.38
September	323.8	324.0	108.63	108.24	28.84	27.73	27.92	27.56
October	325.3	324.9	102.97	106.11	26.95	27.18	27.76	27.41
November	326.4	326.1	104.42	106.72	27.15	27.42	28.31	27.55
December	327.2	327.3	104.93	108.09	27.46	27.85	29.11	27.76
January 1988	329.1	329.0	106.05	107.23	27.93	27.41	27.63	27.69
February	330.6	330.5	106.17	107.50	27.86	27.53	27.85	27.78
March	331.8	331.9	105.95	106.67	27.74	27.65	28.18	27.89
April	333.6	333.3	105.24	105.88	27.05	27.62	28.65	27.95
May	335.4	335.0	103.46	104.26	25.93	26.95	28.43	26.98
June	337.4	336.8	104.21	105.31	26.28	27.18	29.06	27.43

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	659.0	659.0	8.27	8.28	126.5	126.5	79.4	79.4
February	660.2	660.2	8.40	8.40	127.1	127.0	79.7	79.6
March	662.8	662.8	9.87	9.87	126.7	126.8	79.2	79.3
April	662.9	665.5*	8.93	8.73	126.5	126.3	78.8	78.9
May	663.5	668.3	9.08	9.06*	127.1	126.8*	79.1	79.1*
June	664.9	669.9	9.25	9.17	127.6	127.0	79.3	79.1
July	666.8	671.9	9.20	9.20	127.8	127.2	79.3	79.1
August	668.5	674.9	9.30	9.24	127.9	127.4	79.2	79.1
September	670.6	678.0	9.34	9.30	128.1	127.7	79.2	79.2
October	673.4	681.2	9.45	9.38	128.6	127.9	79.4	79.2
November	675.9	683.4	9.40	9.35	129.0	128.1	79.5	79.2
December	678.1	686.5	9.30	9.41	129.4	128.1	79.7	79.0
January 1988	681.4	688.7	9.36	9.46	129.0	128.2	79.3	78.9
February	684.5	690.4	9.46	9.53	128.7	128.4	78.9	78.9
March	687.2	693.6	9.57	9.50	129.2	128.5	79.1	78.8
April	691.4	697.5	9.60	9.56	129.5	128.7	79.2	78.8
May	694.8	701.3	9.65	9.62	129.7	128.8	79.2	78.7
June	697.0	704.3	9.71	9.68	129.6	128.7	79.0	78.4

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	333.6	333.6	291.7	291.7	313.6	313.6	116.0	116.0
February	335.0	335.0	291.9	291.9	315.7	315.7	116.2	116.3
March	336.3	336.3	293.1	293.1	315.8	315.8	116.5	116.8
April	337.5	337.6	294.7	295.2	316.4	317.3	116.9	117.2
May	338.8	339.5*	296.0	297.0*	316.9	318.6*	117.3	117.7*
June	339.5	340.8	297.3	298.5	317.1	319.9	117.7	118.1
July	340.9	342.1	298.5	299.7	317.9	321.0	118.0	118.5
August	342.2	343.4	299.8	301.0	319.2	322.7	118.4	118.9
September	343.5	344.7	300.6	302.0	317.2	320.8	118.8	119.3
October	344.7	346.0	301.5	302.9	319.8	324.7	119.2	119.8
November	345.9	347.4	302.3	303.7	320.5	325.5	119.5	120.2
December	347.2	348.8	303.1	304.6	321.3	326.3	119.9	120.7
January 1988	348.2	350.1	303.8	305.5	322.9	327.4	120.4	121.2
February	349.3	351.5	304.5	306.2	324.5	328.6	121.0	121.7
March	350.4	352.9	305.2	307.0	326.0	329.9	121.6	122.2
April	351.9	354.3	306.0	307.8	325.6	331.1	121.9	122.7
May	353.7	355.8	306.9	308.5	326.5	332.0	122.2	123.1
June	355.5	357.1	307.8	309.3	327.7	333.2	122.6	123.8

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	116.5	116.5	106.0	106.0	109.2	109.2	124.8	124.8	110.6	110.6
February	116.8	116.9	106.4	106.6	109.8	109.7	125.2	125.2	110.9	110.9
March	117.2	117.3	106.4	106.8	110.2	110.3	125.6	125.6	111.1	111.1
April	117.7	117.7*	106.7	106.9*	110.7	110.9*	126.1	126.0*	111.4	111.3*
May	118.1	118.2	107.1	107.3	111.1	111.3	126.6	126.5	111.7	111.6
June	118.5	118.6	107.5	107.5	111.5	111.7	127.1	127.0	112.0	111.9
July	119.0	119.0	107.9	107.9	111.9	112.0	127.5	127.5	112.3	112.3
August	119.5	119.5	108.2	108.2	112.2	112.3	128.0	128.1	112.6	112.5
September	119.9	119.9	108.5	108.6	112.5	112.6	128.6	128.6	112.8	112.7
October	120.4	120.4	108.9	109.0	112.9	113.0	129.2	129.2	113.1	112.9
November	120.8	120.8	109.3	109.4	113.4	113.4	129.7	129.7	113.5	113.2
December	121.2	121.3	109.7	109.8	113.8	113.8	130.2	130.3	113.9	113.5
January 1988	121.7	121.8	110 0	110.1	114.2	114.3	130.7	130.9	114.2	113.7
February	122.2	122.4	110.2	110.5	114.6	114.8	131.2	131.5	114.4	114.0
March	122.6	122.8	110.5	110.9	115.0	115.1	131.8	132.1	114.7	114.3
April	123.1	123.4	110.8	111.3	115.5	115.5	132.4	132.7	115.0	114.5
May	123.6	123.9	111.2	111.7	115.9	115.9	133.0	133.3	115.3	114.8
June	124.0	124.4	111.5	112.1	116.4	116.4	133.6	133.9	115.8	115.2

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	-12.27	-12.27	186.0	185.6	4308	4316	3714	3721	-9.9	-9.9
February	-15.06	-15.06	186.8	186.3	4349	4354	3743	3744	-7.7	-7.7
March	-14.15	-13.63	187.5	187.7	4361	4372	3743	3743	-7.6	-7.6
April	-14.89	-15.20p	188.3	186.6	4372	4385	3740	3741	-8.0	-10.3
May	-14.50	-14.66*	187.8	187.5*	4398	4408	3749	3745	-8.3	-11.4
June	-14.21	-14.21	187.7	187.9	4423	4430	3758	3751	-8.6	-11.8
July	-14.96	-13.89	188.0	188.4	4440	4457	3763	3761	-9.8	-12.4
August	-14.70	-13.93	187.7	189.3	4465	4488	3771	3775	-10.2	-12.9
September	-14.44	-13.56	188.3	189.8	4491	4512	3780	3782	-9.3	-12.3
October	-14.08	-13.67	187.7	187.9	4516	4537	3789	3787	-10.5	-12.6
November	-13.91	-13.92	187.5	188.4	4535	4557	3795	3791	-10.8	-8.5
December	-13.73	-13.51	187.9	189.5	4557	4582	3801	3796	-11.1	-7.4
January 1988	-13.68	-13.26	188.4	187.8	4582	4596	3806	3792	-15.4	-7.8
February	-13.51	-12.82	188.5	187.6	4610	4620	3810	3796	-17.6	-9.1
March	-13.33	-12.54	188.2	187.3	4633	4652	3810	3807	-19.8	-9.5
April	-13.26	-12.11	187.8	187.6	4660	4686	3823	3819	-16.5	-9.6
May	-13.53	-11.89	187.3	188.1	4686	4702	3835	3820	-15.4	-9.4
June	-13.26	-11.81	187.0	188.4	4716	4727	3847	3818	-14.6	-9.8

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	258.8	258.9	737.6	737.6	2822.0	2822.0	6.43	6.43	5.44	5.44
February	259.3	259.1	737.2	737.2	2821.5	2821.5	6.10	6.10	5.59	5.59
March	260.5	260.1	739.2	739.2	2825.6	2825.6	6.13	6.13	5.60	5.60
April	262.0	261.5	750.1	750.2	2845.2	2839.6	6.38	6.37	6.05	5.90
May	263.3	263.0*	754.4	753.5*	2867.5	2853.7*	6.68	6.73*	6.11	6.18*
June	264.5	264.2	758.7	757.6	2889.3	2870.0	6.71	6.75	6.10	6.10
July	266.4	265.9	760.4	761.8	2901.4	2884.4	6.76	6.88	6.18	6.17
August	268.2	267.5	762.5	766.4	2912.9	2898.4	6.79	6.93	6.25	6.24
September	270.0	269.3	764.6	770.2	2924.3	2912.9	6.78	6.84	6.23	6.20
October	271.3	270.8	769.3	773.9	2943.2	2933.3	6.75	6.90	6.11	6.29
November	272.6	272.2	773.9	777.7	2961.9	2950.8	6.72	7.03	6.15	6.41
December	273.6	273.5	778.5	781.1	2979.7	2968.5	6.69	7.15	6.15	6.43
January 1988	275.1	274.8	784.6	784.6	2995.4	2986.3	6.57	7.07	6.01	6.35
February	276.7	276.1	790.3	789.1	3014.3	3007.2	6.55	7.20	5.98	6.47
March	278.2	278.1	796.0	795.1	3033.6	3030.1	6.61	7.25	6.06	6.50
April	280.2	280.0	800.1	800.8	3049.2	3051.8	6.76	7.23	6.17	6.44
May	282.1	281.7	804.2	805.7	3064.5	3070.5	6.88	7.21	6.30	6.40
June	284.0	283.2	807.8	810.0	3079.8	3088.9	7.01	7.27	6.32	6.45

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1987	8.36	8.36	6.61	6.61	5.84	5.84	5.87	5.87	7.50	7.50
February	8.38	8.38	6.61	6.61	6.05	6.05	6.10	6.10	7.50	7.50
March	8.36	8.36	6.66	6.66	6.16	6.16	6.17	6.17	7.50	7.50
April	8.93	8.85	7.56	7.55	6.43	6.45	6.56	6.52	7.74	7.75
May	9.20	9.33*	7.82	8.02*	6.72	6.78*	6.81	7.05*	8.19	8.17*
June	9.53	9.53	8.15	8.05	6.80	6.75	6.89	6.98	8.25	8.63
July	9.48	9.37	8.09	7.89	6.83	6.93	6.95	7.14	8.25	8.75
August	9.50	9.36	8.10	7.91	6.85	6.99	7.02	7.21	8.25	8.75
September	9.42	9.44	8.01	7.99	6.79	6.95	7.05	7.17	8.25	8.75
October	9.34	9.62	7.89	8.18	6.75	6.98	7.01	7.22	8.25	8.75
November	9.29	9.78	7.80	8.33	6.70	7.06	6.97	7.25	8.25	8.75
December	9.25	9.85	7.75	8.42	6.67	7.21	6.90	7.36	8.25	8.93
January 1988	9.12	9.82	7.62	8.40	6.54	7.15	6.74	7.31	8.25	9.00
February	9.15	9.89	7.62	8.46	6.57	7.18	6.75	7.35	8.25	9.00
March	9.13	9.93	7.62	8.50	6.65	7.23	6.81	7.44	8.25	9.00
April	9.32	9.82	7.85	8.38	6.78	7.26	6.99	7.48	8.25	9.00
May	9.35	9.81	7.87	8.36	6.93	7.21	7.08	7.41	8.25	9.00
June	9.43	9.74	7.97	8.29	7.04	7.25	7.22	7.45	8.25	9.00

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